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Montana Health
Facility
Authority,
Department of

Legislative Audit Division

State of Montana

Report to the Legislature

November 1998

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1998

Montana Health Facility Authority

Department of Commerce

We performed a financial-compliance audit of the Montana Health Facility Authority for the two fiscal years ended June 30, 1998. This report contains the audited financial statements and accompanying notes for each of the two fiscal years ended June 30, 1998 and 1997. We issued an unqualified opinion on the Authority's financial statements. The opinion means the reader may rely on the financial statement information presented.

This report contains no recommendations.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1998

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Health Facility Authority for the two fiscal years ended June 30, 1998. The objectives of the audit were to determine the authority's compliance with applicable laws and regulations, make necessary recommendations for improvements in management and internal controls, determine the implementation status of prior audit recommendations, and determine if the authority's financial statements present fairly its financial position, results of operations, and cash flows for the two fiscal years ended June 30, 1998.

This audit report contains our Independent Auditor's Report on the financial statements of the Montana Health Facility Authority of the Department of Commerce, as shown on page A-1, followed by the financial statements and accompanying notes. The report contains no recommendations. The previous audit report contained four recommendations to the authority. Three of the prior recommendations have been implemented. The fourth recommendation has been partially implemented. This issue deals with the authority's procedures used when charging fees and documentation of these procedures. The authority has drafted administrative rules. The board members of the authority have approved the rules and the rules are currently being reviewed by the Attorney General. Public hearings will follow. In addition, the authority is in the process of reviewing its operating policy related to fee structure. Because the authority is making progress in this area, we do not make any further recommendation.

The authority is administratively attached to the Department of Commerce. Financial accounting for the authority's operation is performed by the department's Management Services Division. The authority offers debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. Effective July 1, 1997, the Montana Legislature broadened the definition of eligible facility to include pre-release centers.

The authority administers five programs:

- Pooled Loan Program - provides low, variable interest rate loans for eligible institutions to finance or refinance land, buildings, equipment, and related capital costs.

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- Master Loan Program - loan proceeds may be used to finance new construction projects, refinance outstanding bonds, acquire real property, purchase equipment, or reimburse borrowers for prior capital expenditures.

- Stand Alone Program - issues tax-exempt bonds or notes for individual projects.

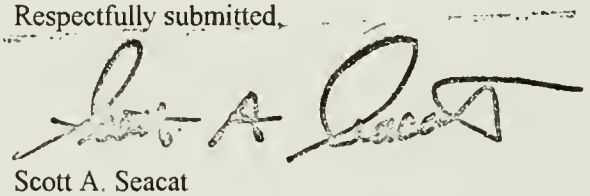
- Private Placement Program - bonds or notes are sold directly to a limited number of investors and are issued on behalf of the borrower.

- Direct Loan Program - provides short-term loans of $100,000 or less to eligible facilities for facility construction, renovation, or acquisition, equipment purchases, and the refinancing of outstanding debt.

Additional detail on amounts, maturity dates, and descriptions of the revenue bonds and notes and notes receivable is disclosed in notes 2 & 3 of the financial statements beginning on page A-8. The authority also prepares a biennial report that describes their operations in more detail.

Authority officials reviewed and agreed with the contents of this report. We would like to thank the executive director and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,



Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board Members

	Profession	Term Expires
Dr. Amos R. Little, Jr., Chair Helena	Physician	2001
Joyce Asay Forsyth	Hospital Administrator	2001
Sidney K. Brubaker Terry	Banker	1999
Gayle Carpenter Helena	State Association Mgmt.	2001
Dalyce K. Flynn Townsend	Development Consultant	1999
Gregory L. Hanson Missoula	Attorney	1999
Michael P. Varone Helena	Banker	2001

Administrative Staff

Jerry R. Hoover, Executive Director

Michelle Barstad, Associate Director

Teri Juneau, Accountant

For additional information concerning the Montana Health Facility Authority contact Jerry R. Hoover at:

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Department of Commerce
555 Fuller Avenue
PO Box 200506
Helena MT 59620-0506
(406)444-5435

e-mail: *jhoover@state.mt.us*

Members of the audit staff involved in this audit were Laurie Barrett, Jody Brandt, Paul J. O'Loughlin, and Lorry Parriman.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet - Enterprise Fund of the Montana Health Facility Authority (authority), a component unit of the State of Montana, as of June 30, 1998 and 1997, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and Statement of Cash Flows for each of the two fiscal years then ended. The information contained in these financial statements is the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Health Facility Authority as of June 30, 1998 and 1997, and the results of operations and cash flows for the two years then ended, in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 2, 1998

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MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEET - ENTERPRISE FUND
JUNE 30, 1998 AND 1997

ASSETS:	*1998*	*1997*
Cash & Cash Equivalents (Note 1)	$ 457,699	$ 460,233
Interest Receivable	8,793	6,099
Accounts Receivable	13,465	15,421
Short Term Notes Receivable (Note 3)	100,415	90,606
Long Term Notes Receivable (Note 3)	89,591	117,801
Due From Other Funds	530	66
U.S. Treasury Notes (Note 4)	953,320	696,546
Securities Lending Collateral	304,561	417,565
Prepaid Expenses	1,374	435
Fixed Assets (Note 1)	2,823	7,792
Total Assets	$ 1,932,571	$ 1,812,564
LIABILITIES AND RETAINED EARNINGS:		
Liabilities:		
Deferred Revenue	$ 1,878	$ 746
Accounts Payable	6,554	11,029
Due to Other Funds	2,616	267
Liability under Securities Lending	304,561	417,565
Compensated Absences	27,230	23,473
Total Liabilities	$ 342,839	$ 453,080
Unreserved Retained Earnings:		
Capital Reserve Account (Note 7)	$ 873,018	$ 700,000
Direct Loan Program (Note 7)	587,332	553,695
Working Capital Fund (Note 7)	129,382	105,789
Total Unreserved Retained Earnings	$ 1,589,732	$ 1,359,484
Total Liabilitites & Retained Earnings	$ 1,932,571	$ 1,812,564

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

	1998	*1997*
REVENUES:		
Service Fees	$ 316,418	$ 293,337
Securities Lending Income	29,054	42,313
Investment Earnings	90,142	73,146
Total Revenues	$ 435,614	$ 408,796
EXPENSES:		
Personal Services	$ 107,594	$ 70,115
Contracted Services	11,421	48,462
Supplies and Materials	4,235	1,933
Communications	4,080	3,444
Travel	17,265	22,637
Rent	4,759	158
Repairs and Maintenance	140	28
Other Expenses	20,394	13,992
Securities Lending Expense	28,235	32,103
Equipment	0	0
Depreciation - Equipment	1,420	979
Loss on Sale of Non-Gen FA	0	1,209
Total Expenses	$ 199,543	$ 195,060
Excess of Revenues Over Expenses	$ 236,071	$ 213,736
Prior Period Adjustment (Note 1)	$ 5,823	$ 0
Excess Revenues Plus Net Prior Year Adjustment	$ $230,248	$ 213,736
Retained Earnings Beginning of Period	$ 1,359,484	$ 1,145,748
Total Retained Earnings	$ 1,589,732	$ 1,359,484

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

	1998	*1997*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts for Sales and Services	$ 174,165	$ 142,108
Payments to Suppliers for Goods and Services	(61,912)	(97,669)
Payments to Employees	(107,343)	(62,518)
Other Operating Revenue	144,208	149,311
Cash Payments for Loans	0	0
Net Cash Provided by (Used for) Operating Activities	$ 149,118	$ 131,232
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash Payments for Loans	$ 0	$ 0
Net Cash Provided by (Used for) Noncapital Financing Activities	$ 0	$ 0
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Acquisition of Fixed Asset	$ (2,273)	$ 0
Proceeds from Sale of Fixed Assets	0	0
Net Cash Used for Capital & Related Financing Activities:	$ (2,273)	$ 0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of Investments (Note 4)	$ 299,444	$ 603,053
Purchase of Investments (Note 4)	(551,906)	(696,375)
Proceeds from Securities Lending Income	29,435	42,313
Collection for Principal & Interest on Loans	19,534	88,226
Security Lending Expense	(28,649)	(29,235)
Interest on Investments	82,763	82,111
Net Cash Provided by (Used for) Investing Activities:	$ (149,379)	$ 90,093
Net Increase (Decrease) in Cash and Cash Equivalents	$ (2,534)	$ 221,325
Cash & Cash Equivalents, July 1	$ 460,233	$ 238,908
Cash & Cash Equivalents, June 30	$ 457,699	$ 460,233

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS (CONTINUED)
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1998 AND 1997

	1998	*1997*
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 236,071	$ 213,736
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	1,420	979
Loss on Sale of Equipment	0	1,209
Interest on Investments	(90,142)	(73,145)
Securities Lending Expense	28,235	32,103
Securities Lending Income	(29,054)	(42,313)
Change in Assets & Liabilities:		
Increase (Decrease) in Accounts Payable	(1,722)	(6,040)
Increase (Decrease) in Compensated Absences Payable	3,757	4,511
Decrease (Increase) in Accounts Receivable	1,955	(1,919)
Decrease (Increase) in Prepaid Expense	(938)	(65)
Decrease (Increase) in Due From Other Funds	(464)	2,177
Total Adjustments	$ (86,953)	$ (82,503)
Net Cash Provided by (Used for) Operating Activities	$ 149,118	$ 131,233

The accompanying notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Authority's Enterprise Fund uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

Reporting Entity

The preceding financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments and include the financial activity of the Authority's account in the Enterprise Fund. These statements are summaries of entries in SBAS recorded for the Authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or changes in financial position of the state of Montana.

Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

> "The Enterprise Fund is used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges."

Cash and Cash Equivalents

Cash and Cash Equivalents as presented on the accompanying Statement of Cash Flows represents the Authority's cash of $16,566 and $39,724 as of June 30, 1998 and 1997, respectively, and funds invested in the Board of Investments' Short-Term Investment Pool (STIP) of $441,133 and $420,509 for fiscal year 1998 and 1997, respectively. The Enterprise Fund invests its excess cash, by law, in STIP. STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair value to report net assets to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets. Effective July 1, 1997 (FY98), the State's capitalization limit was increased from $1,000 to $5,000. Since this policy went into effect July 1, 1997, any items that were disposed

of or removed from fixed assets during FY98 must be reflected in the respective fund balance. The amount that was adjusted for the Authority is shown as a Prior Period Adjustment in the amount of $5,823.

Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation leave. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The accompanying financial statements reflect that liability.

2. Revenue Bonds and Notes Payable

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of security and liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

Most loans financed with bond proceeds are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the eligible facilities. Other loan payments are secured by a Master Note issued under a Master Trust Indenture of an Obligated Group or by standby letters of credit from banks rated "A" or better. These liabilities do not constitute a debt or liability to the state of Montana or any political subdivision thereof.

Revenue Bonds Payable:

Issue	Period Outstanding	Type of Interest Rate	Bonds Payable at June 30, 1998	Bonds Payable at June 30, 1997
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985 A	1985-2015	Variable	$35,900,000	$35,900,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1988	1988-2003	Fixed	557,000	718,000
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1990	1990-2010	Fixed	11,465,000	11,985,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1990	1990-2010	Fixed	4,453,000	4,698,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	36,000,000	36,000,000
Hospital Facilities Revenue Bonds (Sisters of Providence -St. Patrick Hospital in Missoula, Columbus Hospital in Great Falls, and St. Joseph Hospital in Polson) Series 1991	1991-2012	Fixed	43,300,000	45,855,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	27,850,000	28,650,000

Issue	Period Outstanding	Type of Interest Rate	Bonds Payable at June 30, 1998	Bonds Payable at June 30, 1997
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 D	1991-2000	Fixed	2,220,000	3,355,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1991 A&B	1991-2011	Fixed	3,139,000	3,254,000
Hospital Facilities Revenue Bonds (Hospital Pooled Loan Program) Series 1992	1992-2007	Fixed	2,795,000	3,200,000
Health Care Revenue Bonds (Richland Opportunities, Inc. Project) Series 1993	1993-2013	Fixed	169,760	176,236
Hospital Facilities Revenue Refunding Bonds (Bozeman Deaconess Foundation Project) Series 1993	1993-2008	Fixed	11,085,000	11,910,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corporation) Series 1994	1994-2023	Fixed	43,690,000	45,580,000
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Fixed and Variable	58,870,000	58,870,000
Health Care Facilities Revenue Bonds (Master Loan Program-Community Memorial Hospital Project) Series 1994A	1994-1999	Fixed	245,000	355,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lutheran Retirement Home, Inc. Project) Series 1994B	1994-2014	Fixed	2,000,000	2,000,000
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1994C	1994-1999	Fixed	295,000	435,000
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1994D (Taxable)	1994-2004	Fixed	1,015,000	1,120,000
Health Care Facilities Revenue Bonds (Master Loan Program-Northern Montana Obligated Group Project) Series 1995A	1995-2015	Fixed	5,145,000	5,395,000
Health Care Facilities Revenue Bonds (Northern Montana Care Center Project) Series 1995B	1995-2015	Fixed	5,900,000	6,090,000
Health Care Facilities Revenue Bonds (Master Loan Program-Toole County Project) Series 1996A	1996-2011	Fixed	1,555,000	1,635,000
Health Care Facilities Revenue Bonds (Master Loan Program Marcus Daly Memorial Hospital Project) Series 1996B	1996-2011	Fixed	1,770,000	1,860,000
Health Care Facilities Revenue Bonds (Master Loan Program Glendive Medical Center Project) Series 1996C	1996-2011	Fixed	1,515,000	1,590,000
Revenue Bonds (Mission Ridge Project) Series 1996 A,B,C	1996-2026	Fixed	17,835,000	17,835,000
Health Care Revenue Bonds (Community Medical Center, Inc.) Series 1996	1996-2018	Fixed	19,985,000	20,215,000
Hospital Facilities Revenue Bonds (Sisters of Providence of MT Obligated Group-Benefis Health Care) Series 1996	1996-2011	Fixed	15,080,000	16,680,000

Issue	Period Outstanding	Type of Interest Rate	Bonds Payable at June 30, 1998	Bonds Payable at June 30, 1997
Hospital Facilities Revenue Bonds (St. Peter's Community Hospital Project) Series 1997	1997-2011	Fixed	18,240,000	19,225,000
Development Disability Facility Revenue Bonds (Beartooth Industries Project) Series 1997	1997-2024	Fixed	256,252	0
Prerelease Center Revenue Bonds (Alternatives, Inc. Project) Series 1997	1997-2017	Fixed	2,925,000	0
Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association Project) Series 1998A	1998-2018	Fixed	1,425,000	0
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Nursing Home Project) Series 1998B	1998-2018	Fixed	1,730,000	0
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1998C	1998-2008	Fixed	1,890,000	0
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Office Project) Series 1998D	1998-2018	Fixed	860,000	0
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corp.-St.Vincent in Billings, St. James in Butte and Holy Rosary in Miles City) Series 1998	1998-2024	Fixed	137,800,000	0
Developmental Disability Facilities Revenue Bonds (Opportunity Resources, Inc. Project) Series 1998	1998-2018	Fixed	400,000	0

The Montana Developmental Center and the Montana State Hospital are state revenue bond issues and are reflected in the State of Montana Comprehensive Annual Financial Report.

Health Care Revenue Bonds (Montana Developmental Center Project) Series 1994	1994-2019	Fixed	12,435,000	12,740,000
Health Care Revenue Bonds (Montana State Hospital Project) Series 1997	1997-2022	Fixed	25,915,000	0
Total Revenue Bonds Payable			$557,710,012	$397,326,236

Stated maturities on Revenue Bonds Payable are as follows:

Maturing In Year Ended June 30	Bond Principal Payments (in thousands)
1999	$ 13,384
2000	16,431
2001	17,191
2002	17,812
2003	17,544
2005-2027	475,348
Total	$557,710

The bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements and, further, from the funds created by the indentures and investment earnings thereon.

Revenue Notes Payable:

Issue	Due	Interest Rate	June 30, 1998	June 30, 1997
West Mont Home Health Services Inc., Series 1985 Hospital Revenue Note	1985-2004	2% under Bank Floating Rate	$127,748	$162,603
Livingston Community Hospital MHFA Private Placement Revenue Note	1995-2000	7.09%	242,480	338,603
Community Medical Center-MHFA Private Placement Revenue Note	1997-2001	6.18%	1,591,256	2,004,969
MT State Hospital Loan with Montana Board of Investments	1997-2000	6.60%	0	21,250,000
Total Revenue Notes Payable			$1,961,484	$23,756,175

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

3. Notes Receivable

The Notes Receivable include loans made under the Authority's Direct Loan Program. Since the loans are made from the Authority's fund balance and not through the issuance of bonds or notes, a receivable is presented. The Short-Term Notes Receivable represents the portion of the loans that are due within the year following the balance sheet date.

Revenue Notes Receivable:
(MHFA Direct Loans)

Issue	Due	Interest Rate	June 30, 1998	June 30, 1997
Residential Support Services	1994-2009	8% thru 3/99 then re-set at BOI commercial + 2%	41,258	$ 43,589
Mineral Community Hospital	1994-1999	6.07%	6,543	14,818
St. John's Nursing Home	1994-1998	4.675%	70,000	150,000
Eastern MT Community Mental Health Center	1998-2003	5.85%	36,101	0
Butte Sheltered Workshop	1998-2003	5.72%	36,104	0
Total Revenue Notes Receivable			$190,006	$208,407

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

4. Investments

U.S. Treasury Notes constitute the investments made by the Board of Investments for the Authority. At June 30, 1998, the Authority owned one $650,000 and one $300,000 par value U.S. Treasury Notes valued at $950,415, which included a discount of $1,226 and a premium of $1,641. At June 30, 1997, the Authority owned one $400,000 and one $300,000 par value U.S. Treasury Note valued at $697,032, which included a discount of $2,968.

Investment Risk Categories

State of Montana investments are categorized below to give an indication of the level of risk assumed at June 30, 1998 and June 30, 1997. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not categorized includes investments held by broker-dealers under securities loans with cash collateral. Long-term investments are carried at amortized cost and short-term investments are carried at original cost.

Risk as of June 30, 1998

	Category 1				
Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
US Govt Direct/Indirect	$382,904	$300,578	$266,933	$950,415	$953,320
Total Investments	$382,904	$300,578	$266,933	$950,415	$953,320
Securities Lending Collateral Investment Pool			$304,561	$304,561	$304,561

*At June 30, 1998, these underlying securities, with fair values of $300,375 (on loan for securities collateral) and $268,210 (not categorized), were loaned for securities and cash collateral under a security lending agreement with the state's agent.

Risk as of June 30, 1997

	Category 1				
Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
US Govt Direct/Indirect	$290,455	$8,992	$397,585	$697,032	$696,545
Total Investments	$290,455	$8,992	$397,585	$697,032	$696,545
Securities Lending Collateral Investment Pool			$417,565	$417,565	$417,565

*At June 30, 1997, these underlying securities, with fair values of $8,982 (on loan for securities collateral) and $397,484 (not categorized), were loaned for securities and cash collateral under a security lending agreement with the state's agent. The implementation of GASB #31 caused certain accounts to be restated for FY 97. U.S. Treasury notes were restated by $487, Investment Earnings were restated by $4,077, and Retained Earnings were restated by $4,564.

Securities Lending

Under the provisions of state statutes, the Montana Board of Investments has, via, a Securities Lending Authorization Agreement authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal

to 102 percent of the market value of the loaned securities and maintain collateral equal to but not less than 100 percent of the market value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 1998 and 1997, State Street lent, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 1998 and 1997 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 1998 and 1997 resulting from a default of the borrowers or State Street.

During fiscal years 1998 and 1997, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was effected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 1998 and June 30, 1997, the Board had no credit risk exposure to borrowers.

As of June 30, 1998, the carrying and fair value of the underlying securities on loan for the Authority, was $567,511 and $568,585 respectively. The collateral provided for the securities on loan totaled $582,893 representing $275,018 in cash and $307,875 in securities collateral.

As of June 30, 1997, the carrying and fair value of the underlying securities on loan for the Authority, was $406,577 and $406,417, respectively. The collateral provided for the securities on loan totaled $415,435 representing $406,244 in cash and $9,191 in securities collateral.

5. Employee Benefit Plans

The Authority participates in the Public Employees' Retirement System (PERS), a cost sharing, multiple employer, defined benefit pension plan which covers all employees. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from:

Public Employees Retirement Division
PO Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

The Authority and its employees were required to contribute 6.80 and 6.70 percent of annual compensation in fiscal years 1997-98 and 1996-97, respectively.

The Authority's PERS contributions were $5,624 and $3,307 in fiscal years 1997-98 and 1996-97, respectively.

Deferred Compensation Plan

The Authority's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance is required by January 1, 1999.

6. Subsequent Events and Related Party

On August 1, 1998 the Authority issued $19,630,000 of Hospital Facilities Revenue Bonds for Kalispell Regional Hospital, Series 1998. Net proceeds of $11,634,138 were used to refund the Series 1990 Bonds issued by the Authority, and $7,005,580 were used to fund renovation and construction improvements to the hospital in order to increase and improve the delivery of outpatient services. The balance of the bond proceeds were used to fund a debt service reserve and pay a portion of the costs for issuing the bonds.

On September 1, 1998 the Authority issued $13,500,000 of Hospital Facilities Revenue Bonds for Bozeman Deaconess Health Services, Series 1998. Net proceeds of $12,514,281 were used to fund capital expenditures incurred with the design, construction and equipping of a medical office building; the renovation and remodeling of the surgical suites, outpatient emergency area, and radiology and laboratory facilities of the hospital; and the acquisition of certain computer equipment. The balance of the bond proceeds were used to fund a debt service reserve and pay a portion of the costs of issuing the bonds.

As a related party, the Montana Board of Investments, pursuant to Title 17, Chapter 6, MCA, and the Authority, pursuant to section 90-7-320, MCA, have entered into a capital reserve account agreement for the Master Loan Program Bonds and the Prerelease Center Revenue Bonds. In accordance with the agreement, the Board irrevocably agrees to lend to the Authority funds sufficient to ensure timely payment of the principal and interest of the Master Loan Program Bonds. In regard to the Prerelease Center Revenue Bonds, the Board of Investments has agreed to loan the Authority an amount equal to the Reserve Requirement if the Reserve Fund does not meet the Reserve Requirement. The Board will not loan an amount over the Reserve Requirement.

7. Retained Earnings

Capital Reserve Account

The Montana Legislature approved the creation of a Capital Reserve Account (90-7 -317, MCA) as security for the payment of loans in connection with certain bonds issued by the Authority. This Capital Reserve Account security applies to all bonds issued under the Master Loan Program, Community Provider Pooled Loan Programs, Prerelease Revenue Bonds, and the Stand Alone Programs for the Montana Developmental Center and the Montana State Hospital. The Authority designates certain funds equal to 2.5% of the par amount of the outstanding bonds enhanced by the Board of Investments to be deposited to the Capital Reserve Account. Therefore the Authority has designated a certain portion of the Total Retained Earnings for loan repayments to the Board of Investments, upon demand, under the Capital Reserve

Agreements for 15 outstanding bond issues. As of June 30, 1998 and 1997 the total outstanding bonds enhanced by the Board of Investments were $34,920,720 and $30,330,000, respectively. As of June 30, 1998 the total Capital Reserve Account requirement was $873,018 which was fully funded. As of June 30, 1997 the total Capital Reserve Account requirement was $758,250 and was funded at $700,000.

Direct Loan Program

In October 1997 the Legislature authorized the Authority to create and fund a revolving Direct Loan Program which provides short term loans to its non-investment grade clients to finance small capital projects. The Authority has designated a certain portion of the Total Retained Earnings for this revolving loan program. Deposits to the Direct Loan Program include applicable loan repayments, annual fees, and investment earnings. On June 30, 1998 and 1997 the fund requirement for the program was $587,332 and $553,695, respectively.

Working Capital Fund

The Legislature has approved the fees of the Authority which include the Authority's designation of a working capital fund equal to twice the annual Authority budget. For fiscal year 1998 the fund requirement equaled $351,882 and was funded at $129,382 In fiscal year 1997 the fund requirement equaled $313,312 and was funded at $105,789 These funds are part of the Total Retained Earnings balance.